

Business Cycle

The background of the slide features abstract, flowing green and blue lines that create a sense of movement. In the lower right portion, there is a faint, light-colored silhouette of a city skyline with several tall buildings.

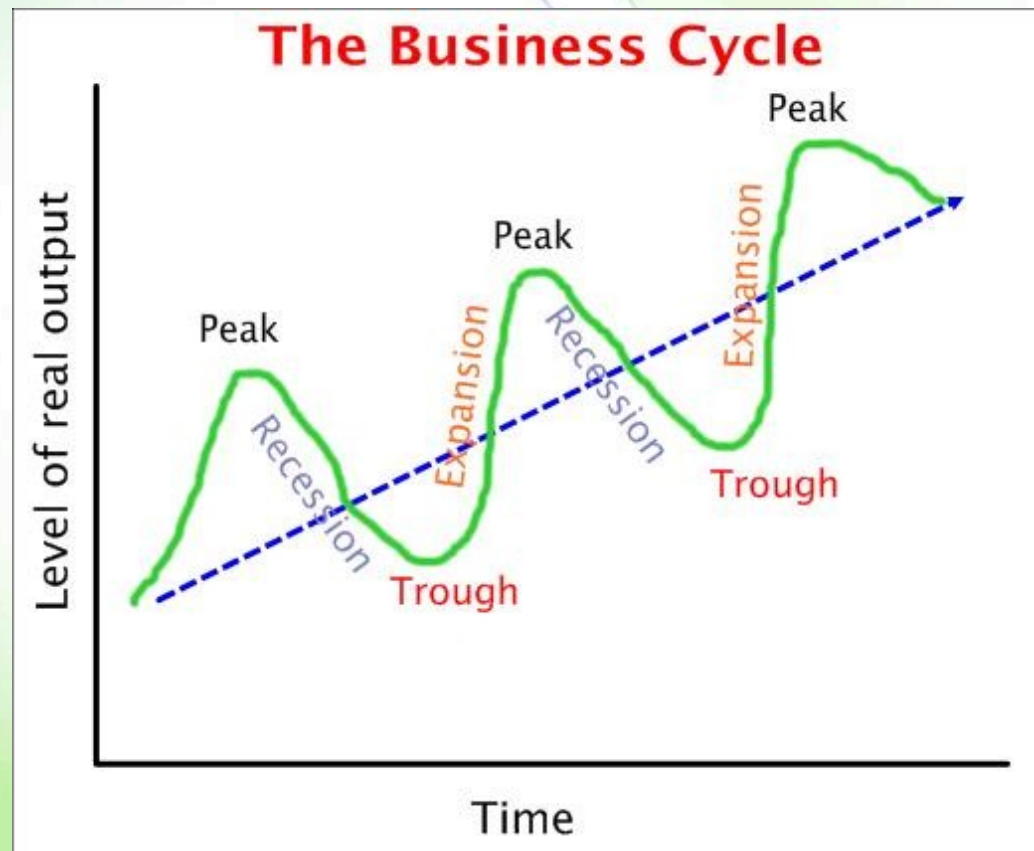


DO NOW!

What is real GDP?

Business Cycle

- Business Cycle:
 - Consists of alternating periods of economic growth and contraction.



Business Cycle Phases

- Peak:

- Real GDP reaches in maximum.
 - Spending and income at a temporary high point
 - Output (GDP) at full-employment
 - Unemployment at the natural rate
 - Price Level (inflation rate) high

Recession

- A downturn in the business cycle during which real GDP declines.
 - Spending decreases
 - Output (GDP) decreases
 - Unemployment increases
 - Income decreases
 - Price level (inflation Rate) decreases

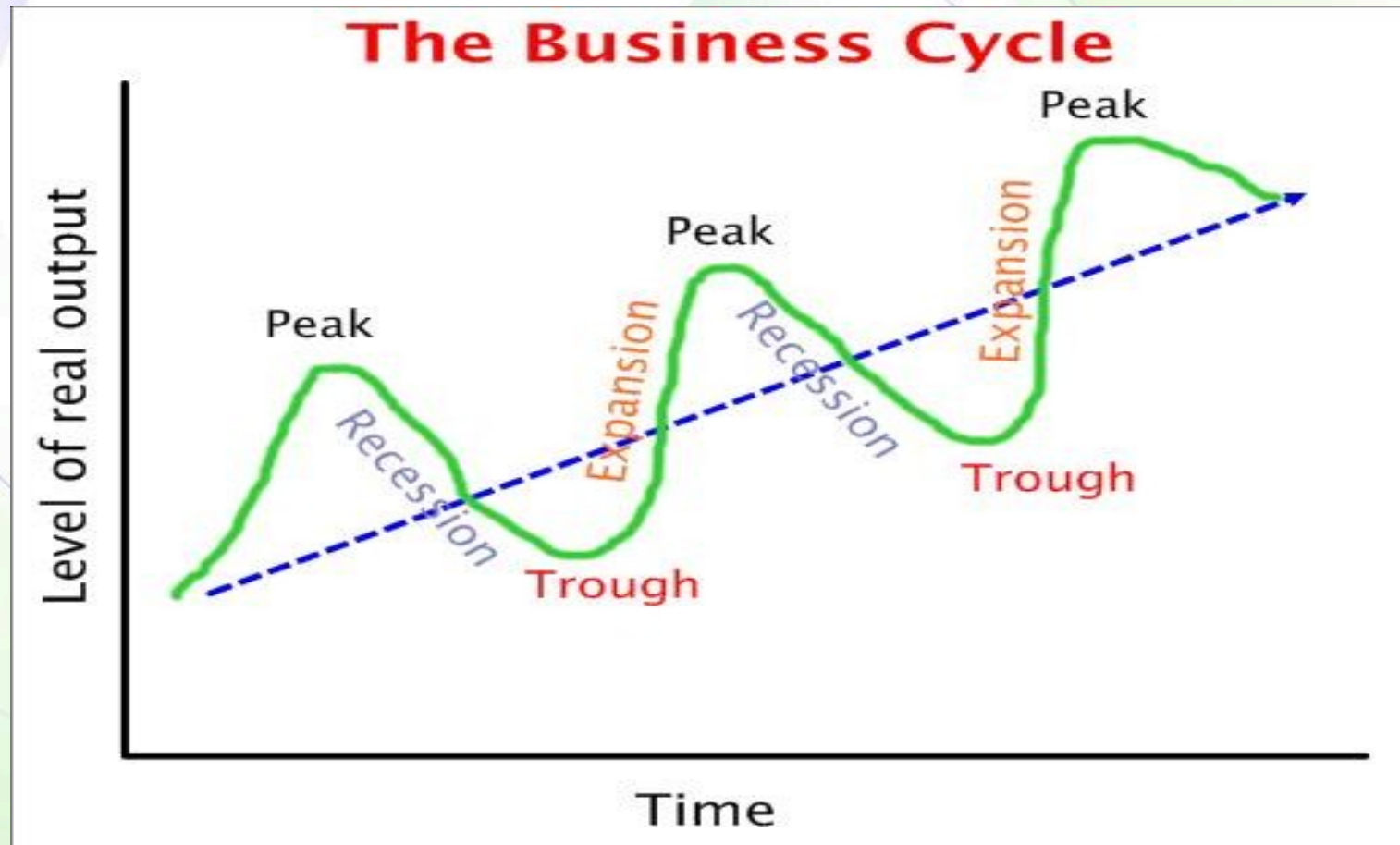
Trough

- Real GDP reaches its lowest level after falling during a recession
 - Spending and incomes bottom out
 - Output (GDP) at lowest levels
 - Unemployment at highest levels
 - Price level (inflation rate) at expected rate

Expansion

- An upturn in the business cycle during which real GDP rises
 - Spending increases
 - Output (GDP) increases
 - Unemployment decreases
 - Income increases
 - Price level (inflation rate) increases

Four Phases

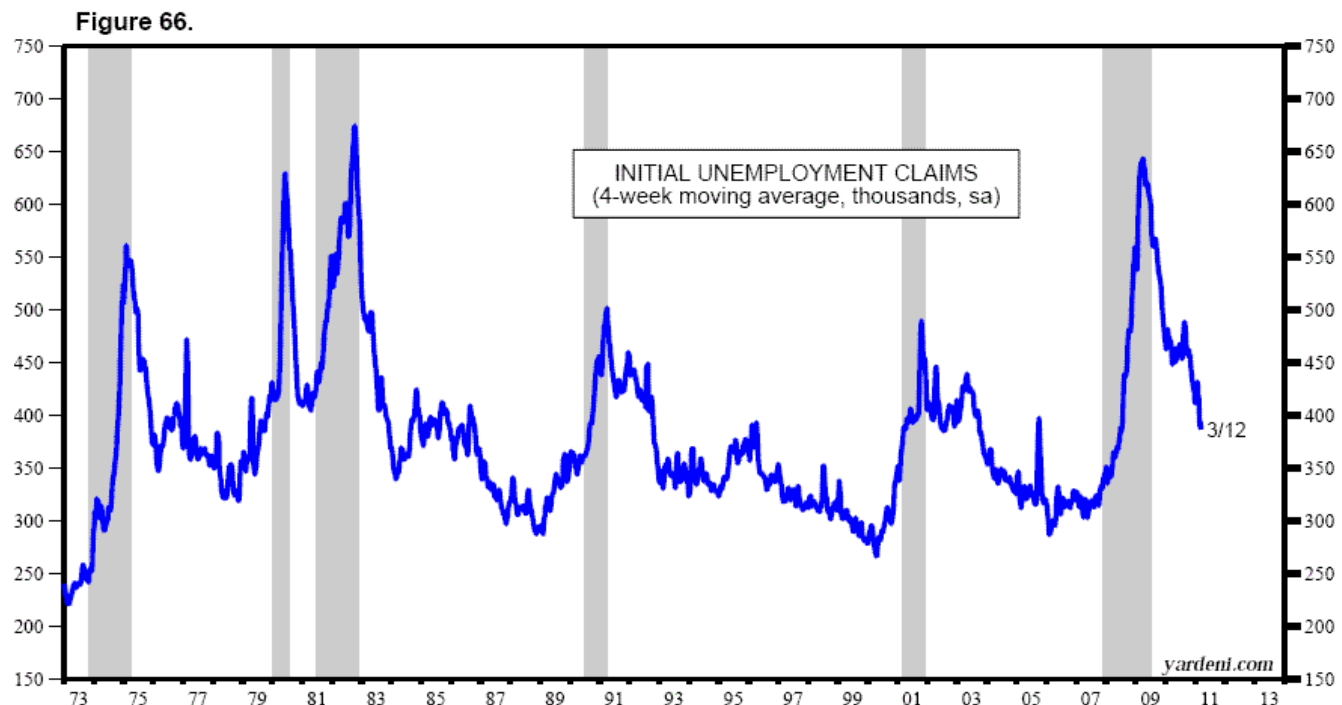


Recession vs. Depression

- “a recession is when a neighbor loses his or her job. A depression is when you lose your job!”
- A depression is a very long recession

Economic Growth

- Economic Growth:
 - A nations real GDP during an expansion



Note: Shaded areas denote recessions according to the National Bureau of Economic Research.
Source: US Department of Labor.

Leading Cycle Indicators

- Key variables that change before real GDP changes
 - Average workweek
 - Unemployment claims
 - New consumer goods orders
 - Delayed deliveries
 - New building permits
 - Stock prices
 - Money supply
 - Consumer expectations

Coincident Indicators

- Key variables that change at the same time that real GDP changes
 - Personal income
 - Industrial production
 - Manufacturing sales

Lagging indicators

- Variables that change after real GDP changes
 - Unemployment rate
 - Duration of unemployment
 - Labor costs
 - Consumer prices
 - Consumer debit to income ratio
 - Commercial and industrial loans

DO NOW!

- What are the four phases of the Business Cycle?